



EAGLE Training Program

Module 2 - Overview of Internal Controls over Financial Reporting

Learning Objectives

In this module, we will:

- Define Internal Control
- Discuss the Benefits of Internal Control
- Discuss the Selected Frameworks used by the EAGLE Program
 - COSO
 - COBIT

What is Internal Control?

Internal control is a process, effected by an entity's governing body, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- **Reliability of financial reporting**
- Compliance with applicable laws and regulations
- Effectiveness and efficiency of operations

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Benefits of Internal Control

- **Avoid Surprises**
 - A routine process to identify and manage potential issues before they become serious business problems
- **Better Governance**
 - Clear risk roles and responsibilities
 - Clear risk communication and language
 - Clear risk reporting and escalation
- **Better Decision Making**
 - Considering the business impact of a broader range of scenarios and “what ifs” improves the quality of decisions
- **Efficiencies**
 - More effective risk functions
 - Better coordination between them
 - Less overlap in risk coverage
 - Fewer gaps in risk coverage

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Benefits of Internal Control (Cont.)



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Aspects of Internal Control

- Internal Control is a process. It is a means to an end, not an end in itself.
- Effected by an entity's management and other personnel. It is not merely policy manuals and forms, but people at every level of an organization.
- Internal control is pervasive throughout an organization, impacting all aspects including people, process and technology.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an organization's management.

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Internal Control over Financial Reporting

Frameworks

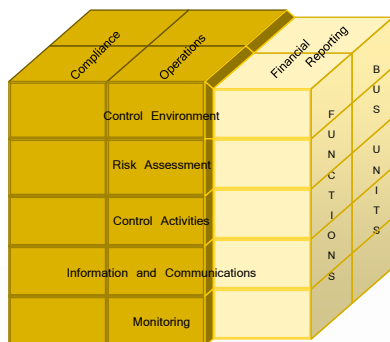
The OSC has adopted the internal control framework established by **COSO** (*Committee of Sponsoring Organizations of the Treadway Commission*).

In relation to the Information Technology (IT) Governance framework, the OSC has adopted **COBIT** (*Control Objectives for Information and Related Technology*), issued by the IT Governance Institute, as the standard for IT internal control.

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COSO Internal Control Framework – The COSO Cube



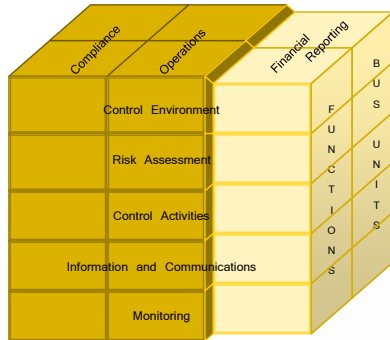
COSO Objectives

- **Compliance** with those laws and regulations to which the entity is subject.
- **Operations** address an entity's basic business objectives, including performance and profitability goals and safeguarding of resources.
- **Reporting** is related to the preparation of reliable published financial statements, including interim and condensed financial statements, such as earning releases, reported publicly.

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COSO Internal Control Framework (Cont.)



COSO Components

- **Control environment** sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- **Risk assessment** is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- **Control activities** are the policies and procedures that help ensure that management directives are carried out.
- **Information and communication** systems support the identification, capture and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- **Monitoring** is a process that assesses the quality of internal control performance over time.

See Handout 1

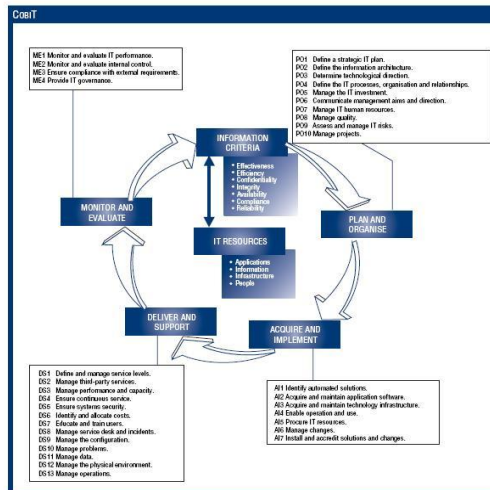


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The Internal Control System – COBIT

COBIT is a framework providing a comprehensive approach for managing risk and control of information technology.

It is structured in Four Domains:
*Plan and Organize (PO),
 Acquire and Implement (AI),
 Deliver and Support (DS),
 and Monitor and Evaluate (ME)*



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The Internal Control System – COBIT

Although there are 34 control objectives identified within the COBIT framework for assessing IT risk...

the EAGLE Program requires compliance with the 10 control objectives related to financial reporting (depicted to the right).

See Handout 2

COBIT High-Level Control Objectives

Plan and Organize (PO)

| | |
|-----|----------------------------|
| PO8 | Manage quality |
| PO9 | Assess and manage IT risks |

Acquire and Implement (AI)

| | |
|-----|----------------|
| AI6 | Manage changes |
|-----|----------------|

Deliver and Support (DS)

| | |
|------|---------------------------------|
| DS4 | Ensure continuous service |
| DS5 | Ensure systems security |
| DS6 | Identify and allocate costs |
| DS11 | Manage data |
| DS12 | Manage the physical environment |

Monitor and Evaluate (ME)

| | |
|-----|--|
| ME2 | Monitor and evaluate internal control |
| ME3 | Ensure compliance with external requirements |



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Summary

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 - COBIT



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